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Student Loans BK [Brian Kennedy]

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"Oberg, Jon" <Jon_Oberg@ed.gov>
07/26/99 11:40:16 AM

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To: See the distribution list at the bottom of this message

cc:
Subject: FW: "Price Cuts for Student Loans" by Jane Bryant Quinn

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Great article!!

> CAPITAL GAINS NEWSWEEK, August 2,
> 1999
> Better Deals For Students
> <<...>>
> Price cuts come to loans for higher education. Will this 'free market'
> Congress interfere?
> <<...>>
> By Jane Bryant Quinn
> <<...>>
> Competition-beloved by all right-thinking Americans-is slashing the cost
> of federal student loans. Upfront fees have come down, and borrowers can
> find special deals on interest rates. But instead of saluting, a lot of
> supposedly free-market folks are crying foul. They're sore at the
> government's fledgling Direct Loan program, which has just announced price
> cuts of its own.
> Believe it or not, this federal program actually sparked today's fierce
> competition by introducing a streamlined way of delivering student loans.
> Private lenders had to scramble to catch up, and they don't want the Feds
> getting ahead of them again. So they're blowing in the ears of their
> congressional buddies, hoping for legislative action to clip the
> government's wings.
> Money for millions: The guaranteed-student-loan program is providing $32
> billion for fiscal year 1999 to 8.7 million students. Young undergraduates
> can borrow up to $23,000; graduate students are eligible for more. A
> federal formula determines whether you have financial need. If you do, the
> government pays the loan interest while you're in school. If not, you pay.
>
> Traditionally, loans were offered solely through private or state-linked
> lenders (some 4,100 of them today) and administered by special guaranty
> agencies. The business is virtually risk-free. Congress sets the fees and
> interest rates that students pay. Lenders receive subsidies to assure them
> a reasonable return. If a student defaults, the Treasury covers 98 percent
> of the loss.
> For years this system rattled on inefficiently, driving schools and
> students nuts. The lenders all had different application forms and
> communicated with the guaranty agencies in different ways. Some gave good
> service, others didn't. Schools complained that the money didn't always
> arrive by the day tuition was due.

The Chronicle of Higher Education
Today's News

Monday, August 2, 1999

Senate's Tax-Cut Package Includes $1,500 Tax Credit for Student-Loan Interest

By SARA HEBEL

Washington

The Senate on Friday agreed to include a $1,500 tax credit for interest paid on student loans in the massive Republican tax-cut package that it passed the same day. The overall legislation also contains other key benefits for higher education, including tax breaks for parents saving for college.

The new provision, sponsored by Republican Sen. Olympia J. Snowe of Maine, would allow students to take a tax credit of up to $1,500 each year on student-loan interest payments for the first 60 months they are repaying the loan. The proposal, which lawmakers passed by voice vote, would cost $1-billion each year and was offset by delaying an unrelated tax break included in the overall Senate bill.

The larger Senate legislation, which would cost $792-billion over 10 years, passed by a vote of 57 to 43. The House of Representatives agreed to a similar measure last month, but President Clinton has said he would veto both versions for reasons unrelated to the bill's higher-education components. He and many Democrats would prefer to spend the money on Social Security and Medicare.

Meanwhile, higher-education lobbyists said Friday they were excited about the inclusion of the new student-loan tax credit, which is not in the House tax bill.

"Students are still facing significant problems of debt after graduation," said Ivan O. Frishberg, director of the U.S. Public Interest Research Group's higher-education project. "This will pretty much double the benefits for the student."

The new tax credit would be available in addition to the tax deduction that students already are allowed to take on the interest they pay on their loans. The Senate tax bill, as well as the House proposal, would also do away with a 60-month limit on the length of time students can take that deduction.

Under present law, students by 2001 will be allowed to deduct as much as $2,500 from their taxable income for interest they pay on the loans. But the proposed $1,500 credit is more valuable because the full amount can be credited against the taxes that the student would otherwise owe.

For example, a student in the 15-per-cent income-tax bracket who deducted $2,000 of interest payments from his or her taxable income would get a total savings of about $300, Mr. Frishberg said. The same student would receive a $1,500 savings from the new credit.

Comparison of Tax Bills' Provisions on the Marriage Penalty and Education Tax Relief

Provisions	House Passed GOP	House Democrats	Senate Finance GOP	Senate Finance Democrats
Marriage Penalty Relief:				***(Current information on Senate plan lacks detail)***
Tax treatment of married couples	n/a	n/a	Allows them to file single returns[1] ($112 billion)	n/a
EITC income starting and ending points	n/a	Increased to $2,000 for 2000 and $2,500 thereafter*	Increased to $2,000 **for 2005, indexed thereafter** ~~after 2005~~ ($5.6 billion)	n/a
Standard deduction for married couples	**Double the single deduction** ~~Doubled~~ - **phased in** over 3 years ~~($405 billion~~ **$45 billion**– 10 years)	**Double the single deduction - phased in over 2 years*** ~~Doubled*~~	n/a	Increased from $7,200 to $11,550
Student loan interest deduction income limits	~~Doubles interest rate~~ **Adjusts deduction income limits for married filing jointly to double the single limits.** ~~Reduction for married couples filing jointly~~ **Repeals 60-month rule, beginning in 2000.** ($2 billion – 10 years)	n/a	~~n/a~~ **Increases income limits for deduction by $10,000 for singles. Adjusts deduction income limits for married filing jointly to double the single limits. Repeals 60-month rule beginning in 2000. ($1.2 billion – 5 years, $ 3 billion – 10 years)**	n/a

[1] Prevents second income from bringing couple into 28% bracket if each would only be in 15% bracket individually

Roth IRA conversion income limit	Increased to $160,000, begins year 2000 ($994 million – 10 years)	n/a	n/a	n/a
Earnings of the second spouse	**n/a** ~~N/a~~	n/a	n/a	Tax credit
Total cost	**$ 15.2** *~~$17.2~~ billion over 5 years* *$47.5 billion over 10 years*	*$74 billion over 10 years*	*$117.7 billion over 10 years*	*No estimate available*

Provisions	House Passed GOP	House Democrats	Senate Finance GOP	Senate Finance Democrats
Education Tax Relief:				
Education savings accounts	Annual contribution limits increased to $2,000 (**$3.6** ~~$3.5~~ billion – 10 years)	n/a	n/a	n/a
Increase student loan interest deduction	**n/a** ~~N/a~~	n/a	**(See discussion under marriage penalty above)** ~~Increased by $10,000 for singles, $15,000 for joint married couples. 60-month rule repealed. ($1.2 billion – 5 years, $3 billion – 10 years)~~	n/a
Repeal 60-month limit on student loan interest deduction	**(See discussion under marriage penalty above)**	**n/a**	**(See discussion under marriage penalty above)**	**n/a**
Tax-deferred pre-paid tuition plans	Extended to private as well as public schools (1.1 billion – 10 years)	n/a	Expands definition to cover more programs ($222 million – 5 years $1.2 billion – 10 years)	n/a
Awards under state-sponsored scholarship programs.	Excluded from taxation ($36 million – 10 years)	n/a	Excluded from taxation **($5 million – 5 years $8 million – 10 years)**	n/a
Extend/modify exclusion for employer-provided educational assistance.	n/a	Adds graduate courses, extends exclusion for undergrad for 2 yrs, (permanent if **) ($1.14 billion – 5 years $1.14 billion – 10 years)	Adds graduate courses, permanently extends exclusion ($2.7 billion – 5 years $6.9 billion – 10 years)	Permanent extension

School construction bonds	Arbitrage rebate rules for new 4-year schedule ($2.4 billion – 10 years) Increase small issuer rebate exception **from $10 million to $15 million** ($102 million – 10 years)	Free-of-interest-cost funds – half to 100 largest school districts, half to state education agencies ($25 billion)*	Allows Federal Home Loan bank to guarantee, capped at $500 million/year **Increase small issuer rebate exception from $10 million to $15 million ($102 million – 10 years)**	Free-of-interest-cost funds given ($24 billion)
Tax-exempt private activity bonds	n/a	n/a	Volume cap of $10 per resident or $5 million **($181 million – 5 years $992 million – 10 years)**	n/a
Computers in schools	n/a	n/a	**n/a** ~~N/a~~	Incentives for donations
Total	*$1.9 billion – 5 years* *$7.2 billion – 10 years*	*No estimate available*	*$4.3 billion – 5 years* *$12.2 billion – 10 years*	*No estimate available*

*These provisions do not go into effect without (1) a Social Security certification, (2) a Medicare certification, and (3) a balanced budget certification.

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August 2, 1999

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Clinton Administration: Significantly Expanded Higher Education Benefits for Student

Recognizing the high cost of higher education, the Clinton Administration has worked hard to ensure that post-secondary education remains affordable for all Americans. Through determination and perseverance, the President has succeeded in improving benefits under existing programs, as well as launching major new initiatives. Contained below are highlights of these successes:

- **Drastically reduced student loan interest rates**

  Starting with the Student Loan Reform Act of 1993, the Clinton Administration has diligently worked to reduce the cost of loans for students. Through this Act and subsequent Higher Education Amendments, the Administration has reduced the interest rate on loans by 95 basis points. In 1992, the applicable rate for loans was the 91-day Treasury Bill plus 3.25%. Currently, the rate is the 91-day Treasury Bill plus 2.3% while in repayment (and 1.7% while in school).

  The change in the interest rate formula has resulted in annual interest savings to students of $100 on each $10,000 in outstanding loans. For loans originated from 1993 through 1999, these changes to the rate formula will save students at least $5 billion in interest expenses.

- **Provided borrowers protection against major student loan interest rate increases**

  In addition to the effective interest rate cut for student loans under the revised formula, the Clinton Administration has championed ensuring that loans remain affordable for students in the long run. As such, the Administration has reduced the maximum rate paid by students from 10% to 8.25%, or by 1.75 percentage points. The 8.25% student interest rate cap helps students avoid the repayment risk associated with potential spikes in prevailing interest rates.

- **Introduced the Direct Loan program**

  This centerpiece program has provided the following innovations and benefits to students:

  Income Contingent Repayment
  Streamlined loan processing and disbursement
  Improved services for students in the FFEL Program resulting from competition

  The Clinton Administration fought hard and succeeded in enacting the Direct Loan program in FY 1994 in order to streamline delivery of benefits to students and reduce costs for the Government. In addition to improved loan disbursement for students, the program offers borrowers flexibility in selecting and changing repayment options and, most notably, an Income Contingent Repayment (ICR) option. Under the ICR feature, loan repayment is calculated based on current income level with a maximum repayment period of 25 years. At the end of the period, any remaining loan balance is discharged. ICR provides borrowers the flexibility to pursue careers in fields that may require significant educational expenses while paying low salaries. Students enrolled in the Direct Loan program may select and switch, at any time, to any of the following repayment options: Standard, Extended, Graduated, and Income Contingent. This provides significant cash management flexibility for students.

The success of the Direct Loan program has resulted in dramatic service improvements for students by private intermediaries in the Federal Family Education Loan (FFEL) program. This healthy competition between the Department's two loan programs will help ensure that students receive the best benefits possible.

- **Made loans more affordable through reduced origination costs**

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Since 1993, the reduced origination fees have saved students approximately nearly $3.7 billion.

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Under changes to the tax law enacted by the Clinton Administration, low and middle-income individuals can deduct a portion or all of their student loan interest costs when determining tax liability during the first 60 months of loan repayment. The deductions phase out for single filers with adjusted gross income (AGI) between $40,000 and $55,000. For joint filers, the phase out is for AGI between $60,000 and $75,000. Deductible amounts are $1,500 for tax year 1999, increasing to $2,500 by 2001. This benefit is expected to provide $245 million in taxpayer relief in 1999 to low and middle income student loan borrowers, thereby helping to make education more affordable. The Reagan-Bush Administrations had eliminated this important benefit.

Additionally, in the most recent budget, the President has proposed to eliminate the 60-month limit on student loan interest deductibility. This change will facilitate tax liability calculations for students and further increase benefits.

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